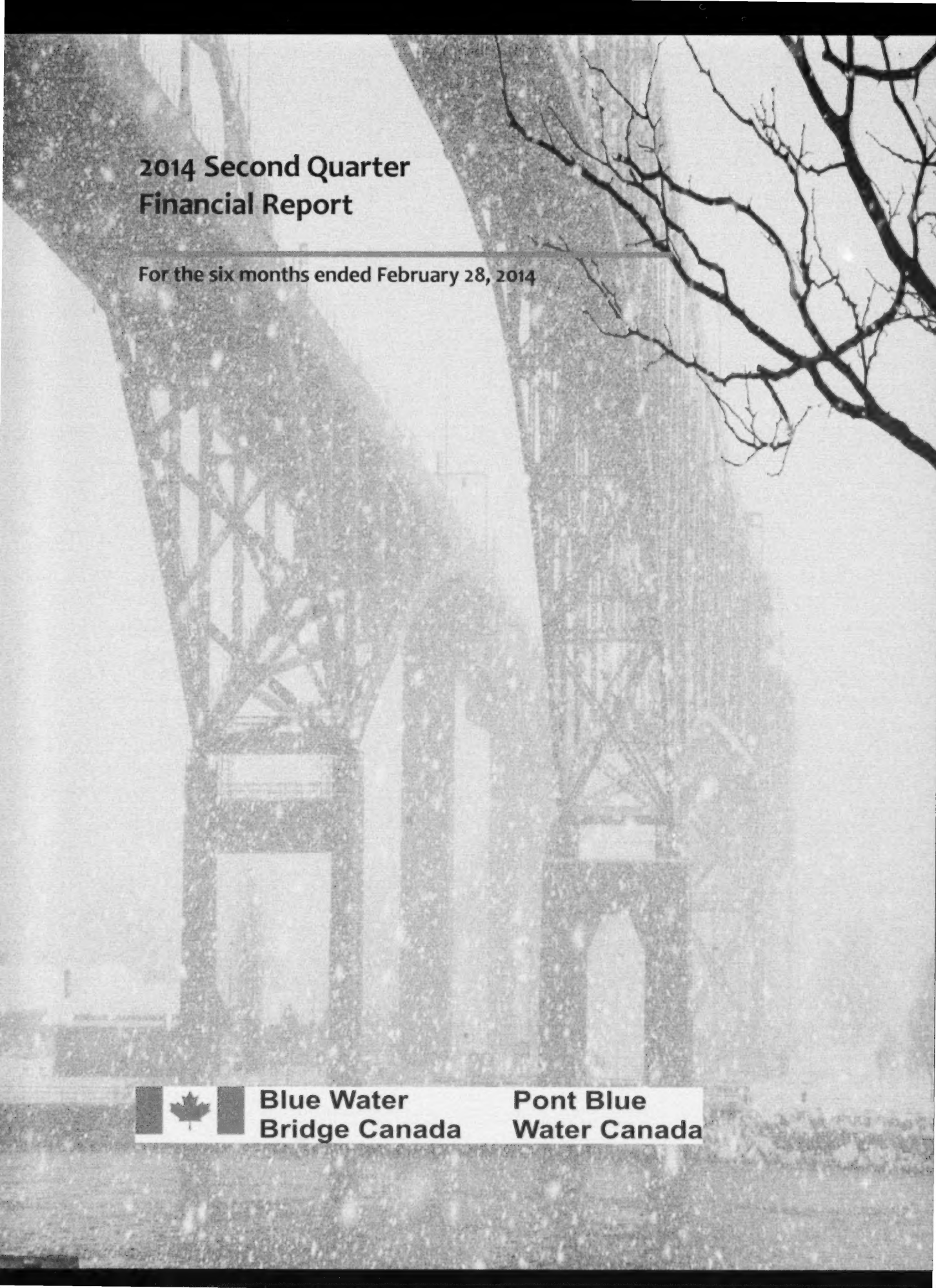

2014 Second Quarter Financial Report

For the six months ended February 28, 2014

Blue Water Bridge Canada

Pont Blue Water Canada

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Management's Discussion and Analysis

Background, Legislative Authority and Compliance

Blue Water Bridge Canada (BWBC) owns and operates the Canadian half of the Blue Water Bridge, linking Point Edward/Sarnia, Ontario to Port Huron, Michigan. The Blue Water Bridge is Canada's second busiest international land crossing for commercial vehicles, the busiest for livestock shipments and the third busiest for total vehicles. BWBC is recognized for its customer-centred operations, which are achieved, in part, through its close working relationship with its bridge co-owner, the Michigan Department of Transportation (MDOT) and border security and public safety agencies, including the Canada Border Services Agency (CBSA), the Canadian Food Inspection Agency (CFIA) and the U.S. Customs and Border Security Agency (CBP). The twinned bridges (Span 1 opened in 1938 and restored in 1997, with Span 2 opening in 1997) are a key link in the Ontario-Quebec Continental Gateway and Trade Corridor.

As a crucial international bridge, BWBC:

- Is a non-appropriated parent Crown corporation (2002), operating under a governance model prescribed by the *Blue Water Bridge Authority Act*, S.C. 1964-65, c. 6, and which has been financially self sustaining for close to 50 years
- Maintains a 24-hour-a-day, 365-days-per-year operation, within a multi-dimensional and dynamic environment with international, federal, aboriginal, provincial, regional and municipal partnerships and interests
- Provides employment for approximately 64 people
- Participates in a number of pilot projects under the federal government's Beyond the Border Initiative and Perimeter Vision program, which are helping to effectively streamline and secure the Canada/U.S. border and enhance regulatory cooperation, to ensure that people and goods flow freely and safely between the neighbouring countries.

Q2 Fiscal 2014 in Review

This quarterly financial report has been prepared in accordance with the requirements of the *Financial Administration Act* and the *Standard on Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board Secretariat.

This quarterly financial report assesses the operations and financial status of BWBC for the 2nd fiscal quarter ended February 28, 2014. It should be read in conjunction with the interim unaudited condensed financial statements and supporting notes included herein and the annual audited financial statements included in BWBC's *2013 Annual Report*. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

Summary of Results

BWBC reports net income of $1.4 million for the six months ended February 28, 2014 (Q2) compared to net income of $729 thousand for the six months ended February 28, 2013. Q2 results have been favourable with minimal traffic volume increases for passenger vehicles and increases of 5.5% for commercial vehicles compared to Q2 2013.

BWBC is on target for most revenue line items in comparison with the Corporate Plan. BWBC projected $10.1 million for the six months ended February 28 with a 1% increase for vehicles. The revenue results totaled $10.4 million. Toll revenue increased more than expected due to the increase in truck traffic ($211k or 2.1% favourable).

Compared to the Corporate Plan on the expense side, BWBC is below the forecasted $12.0 million by 7.4% or $892 thousand primarily due to depreciation decreases ($455k). Buildings that were slated for demolition in the near future are now being re-purposed, which creates a positive variance when the useful life of the building is extended. Human resource expenses are also more favourable ($239k) mainly due to an improvement in the discount rate of the employee future benefits expenses.

Outlook

BWBC has begun the construction of its new electronic toll system that will be capable of handling multiple forms of payment at the toll booth with the ability to be modified for future payment options and technologies. The new electronic toll system will have architecture that is easily integrated into existing programs to support ongoing and new business requirements, while also reducing operational costs. BWBC is still on target with this project and expects to have this new system operational by the summer of 2014 with full implementation by the fall of 2014.

Amalgamation Update

On October 22, 2013, the Government of Canada announced a restructuring of its federal bridges as part of its tabling of the government's budget implementation bill, C-4, Economic Action Plan Act, No. 2. Through the restructuring, BWBC will be amalgamated with the Federal Bridge Corporation Limited. It is anticipated that the amalgamation will be completed by the end of 2014. BWBC will be assessing the impact of this change over the coming months.

Discussion of Financial Results

Period over Period Comparisons
For the six months ended February 28, 2014

Revenues

Revenues	Q2 Fiscal 2014	Q2 Fiscal 2013
Tolls and services	$ 10,390,492	$ 9,203,757
Rentals	1,261,595	1,255,610
Currency Exchange	734,417	743,063
Other	205,938	139,661
	$ 12,592,442	$ 11,342,091

Toll revenue increased by $1.2 million or 12.9% mainly because commercial vehicle volume increases of 5.5% were recognized. Also, the full toll rate adjustment in January of 2013 would not have been in effect for the first four months of Fiscal 2013. Minimal volume increases have been recognized for passenger vehicles. Also, comparatively to prior years the Canadian dollar weakened for the 2nd quarter 2014 versus 2013 which has created a positive exchange rate variance for toll revenue ($211k favourable).

Other revenue increased due to a gain on sale of equipment ($53k favourable).

Expenses

Expenses	Q2 Fiscal 2014	Q2 Fiscal 2013
Depreciation	$ 3,547,254	$ 4,019,631
Interest expense	2,854,413	2,938,651
Human resources	2,720,272	3,038,200
General and administrative	1,101,670	843,754
Maintenance	962,188	809,020
Total	$ 11,185,797	$ 11,649,256

Depreciation expense decreased 11.8% due to changes in BWBC's future outlook for the master capital plan projects. Buildings that were slated for demolition in the near future are now being re-purposed. This decelerates the depreciation expense.

Interest expense decreased due to the diminishing balances of the bond principal and the $15 million credit facility.

Human resource expenses decreased due to a decrease in staff which creates a favourable variance in salaries and benefits along with the employee future benefit expenses. This is

partially offset by the collective bargaining agreement which obligates BWBC to 2.75% increases for 47 of its employees in the current period (10.5% or $318k favourable).

Maintenance expenses increased mainly due to the timing of bridge inspections ($98k unfavourable), an increased need for snow removal ($31k unfavourable) and equipment rentals and servicing ($31k unfavourable). This is partially off-set by less need for small shop tools ($24k favourable).

General and administrative expenses increased by $258k more than the prior period mainly due to municipal tax increases as a result of changes to the MPAC assessment guideline from the income approach to the cost approach ($54k unfavourable) and also as a result of the need for additional professional services to redevelop the Master capital plan and update the site plan ($235k unfavourable).

Risk Analysis

To date, there are no changes in our risk analysis from those identified in the 2013 Annual Report.

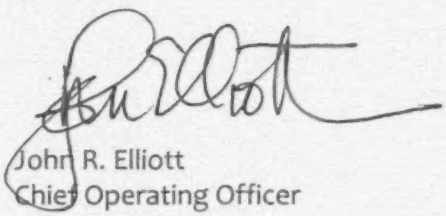
Changes to Accounting Standards

Note 3 (j) to the condensed interim financial statements outlines the accounting standards changes which are applicable for the period ended February 28, 2014.

Management's Responsibility for Interim Financial Reporting

Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with the Treasury Board of Canada's *Standard on Quarterly Financial Reports for Crown Corporations* and *International Accounting Standard 34, Interim Financial Reporting*, and for such internal controls as management determines is necessary to enable the preparation of interim condensed financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the interim condensed financial statements.

Based on our knowledge, these unaudited interim condensed financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the interim condensed financial statements.



John R. Elliott
Chief Operating Officer

Point Edward, Ontario
Canada

April 30, 2014

Statement of Financial Position

(Unaudited) (Canadian $) As at		February 28, 2014		August 31, 2013 (Restated-see note 4)
Assets				
Current				
Cash	$	14,709,039	$	11,996,067
Investments		1,246,726		1,219,993
Trade and other receivables		196,691		674,686
Prepaid expenses		322,765		391,714
		16,475,221		14,282,460
Non-current				
Property, plant and equipment		205,927,915		207,845,121
Investment property		15,566,336		15,430,710
Intangible assets		50,612		45,546
Restricted assets		6,444,111		6,373,662
		227,988,974		229,695,039
Total assets	$	244,464,195	$	243,977,499
Liabilities				
Current				
Trade and other payables	$	2,182,453	$	2,094,790
Holdbacks payable		95,598		-
Deferred revenue		3,032,704		2,393,767
Current portion of bank loan payable		411,503		404,068
Current portion of bonds payable		3,789,280		3,669,326
		9,511,538		8,561,951
Non-current				
Employee benefits		5,775,779		5,514,691
Bank loan payable		13,594,978		13,800,492
Bonds payable		75,098,669		77,023,780
		94,469,426		96,338,963
		103,980,964		104,900,914
Equity				
Retained earnings		140,483,231		139,076,585
Total liabilities and equity	$	244,464,195	$	243,977,499

Statement of Comprehensive Income

(Unaudited) (Canadian $) For the period ended	For the three months ended February 28, 2014	February 28, 2013	For the six months ended February 28, 2014	February 28, 2013 (Restated-see note 4)
Revenues				
Tolls and services	$ 4,827,040	$ 4,457,560	$ 10,390,492	$ 9,203,757
Facility rentals	550,984	515,217	1,261,595	1,255,610
Currency exchange department	396,281	350,751	734,417	743,063
Interest and sundry	76,107	70,521	156,453	139,661
Gain on disposal of property, plant and equipment	-	-	49,485	-
	$ 5,850,412	$ 5,394,049	$ 12,592,442	$ 11,342,091
Expenses				
Depreciation of property, plant and equipment	1,617,400	1,901,635	3,235,687	3,584,018
Interest on long-term debt	1,400,178	1,460,126	2,854,413	2,938,651
Human resources	1,394,084	1,576,003	2,720,272	3,038,200
Maintenance expenses	313,706	346,430	962,188	809,020
General and administrative	578,646	420,920	1,101,670	843,754
Depreciation of investment property	150,307	188,380	300,615	376,761
Depreciation of intangible assets	5,741	8,098	10,951	58,852
	5,460,062	5,901,592	11,185,796	11,649,256
Comprehensive income for the period	$ 390,350	$ (507,543)	$ 1,406,646	$ (307,165)

Other Comprehensive Income

Actuarial gains	$ -	$ -	$ -	$ 1,035,751
Total comprehensive income	$ 390,350	$ (507,543)	$ 1,406,646	$ 728,586

Statement of Changes in Equity

Retained Earnings, beginning of period	$ 140,092,881	$ 138,866,961	$ 139,076,585	$ 137,630,832
Comprehensive income for period	390,350	(507,543)	1,406,646	728,586
Retained Earnings, end of period	$ 140,483,231	$ 138,359,418	$ 140,483,231	$ 138,359,418

Statement of Cash Flows

(Unaudited) (Canadian $) For the period ended	For the three months ended February 28, 2014	February 28, 2013	For the six months ended February 28, 2014	February 28, 2013 (restated-see note 4)
Cash Flows from operating activities				
Excess of revenues over expenses and comprehensive income	$ 390,350	$ (507,543)	$ 1,406,646	$ (307,165)
Adjustments for items not affecting cash				
Depreciation of property, plant and equipment	1,617,400	1,901,635	3,235,687	3,584,018
Depreciation of investment property	150,307	188,381	300,615	376,761
Depreciation of intangible assets	5,741	8,098	10,952	58,852
Change in employee benefits	131,041	172,375	261,088	309,329
Change in accrued interest	(40,173)	-	(26,733)	
Bond agency fees				
(Gain) on disposal of property, plant and equipment	(45,860)		(49,485)	
Foreign exchange (gain) loss	346,025	(96,119)	275,491	(65,033)
	2,554,831	1,666,827	5,414,261	3,956,762
Changes in non-cash working capital items				
Trade and other receivables	356,460	(209,876)	477,995	(163,332)
Prepaid expenses	(7,503)	186,346	68,949	177,453
Trade and other payables	(999,788)	(1,703,893)	87,663	(820,300)
Holdbacks payable	95,598	7,586	95,598	18,305
Deferred revenue	392,027	427,073	638,937	709,949
	(163,206)	(1,292,764)	1,369,142	(77,925)
Net cash provided by operating activities	2,391,625	374,063	6,783,403	3,878,837
Cash Flows from investing activities				
Purchase of property, plant and equipment	(979,824)	(97,104)	(1,268,996)	(451,906)
Purchase of intangible assets	(16,018)		(16,018)	
Purchase of investment property	(436,241)	-	(436,241)	(6,846)
Investments				
Investments purchased	-	(12,788)		
Restricted assets				
Investments purchased	(31,133)	(45,241)	(70,449)	(491,744)
Net cash used in investing activities	(1,463,216)	(155,133)	(1,791,704)	(976,214)
Cash Flows from financing activities				
Cash repayment of bank loan	(99,494)	(96,014)	(198,079)	(191,397)
Cash repayment of bonds payable - current portion				
Cash repayment of bonds payable	(1,805,157)	(1,692,680)	(1,805,157)	(1,692,678)
Net cash used in financing activities	(1,904,651)	(1,788,694)	(2,003,236)	(1,884,075)
Foreign exchange loss on cash held in foreign currency	(346,025)	96,119	(275,491)	65,033
Increase in cash during the period	(1,322,267)	(1,473,645)	2,712,972	1,083,581
Cash, beginning of period	16,031,306	11,872,080	11,996,067	9,314,854
Cash, end of period	$ 14,709,039	10,398,435	14,709,039	10,398,435

BLUE WATER BRIDGE CANADA
SELECTED NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED February 28, 2014

1. AUTHORITY AND OBJECTIVE

Blue Water Bridge Canada (BWBC), legally known as the Blue Water Bridge Authority, is located at 1555 Venetian Boulevard, Point Edward, Ontario, Canada. BWBC was established by the *Blue Water Bridge Authority Act* (Canada) on May 21, 1964; as per Section 22, BWBC is not an agent of Her Majesty in right of Canada.

On April 26, 2002 BWBC became a Crown corporation, and as such, is listed under Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. In October 2007 the Minister of Transport confirmed that the new operating title of Blue Water Bridge Canada was approved and registered by the *Federal Identity Program*.

The Blue Water Bridge complex includes the Canadian portion of two international toll bridges connecting Point Edward, Ontario, Canada with Port Huron, Michigan, USA. Span 1 was completed in October, 1938 and Span 2 in July, 1997. Under the direction and guidance of the Minister of Transport, the mandate of BWBC is to operate, maintain and repair the Canadian halves of the two bridges, approaches and structures. The BWBC is considered a Government Business Enterprise for the reason that it has the ability to sustain its current operations and generate additional revenue as it deems necessary.

The *Blue Water Bridge Authority Act* and section 6 of the *Customs Act*, require BWBC to provide, equip and maintain, free of charge, adequate buildings, accommodations or other facilities for the proper detention and examination of imported goods or for the proper search of persons by customs and immigration officers.

2. BASIS OF PREPARATION

Statement of Compliance

The unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described therein, consistent with BWBC's 2013 annual audited financial statements except for new accounting standards adopted during the period as described in Note 3(j).

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

The interim condensed financial statements were approved and authorized for issue by the Board of Directors on April 22, 2014.

Basis of Measurement

These interim condensed financial statements have been prepared on a historical cost basis as set out in the accounting policies below, except as permitted by IFRS and as otherwise indicated within these notes.

Functional and Presentation Currency

The financial statements are presented in Canadian dollars, which is BWBC's functional currency.

BLUE WATER BRIDGE CANADA
SELECTED NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED February 28, 2014

Use of Estimates and Judgments
The preparation of financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments included in the financial statements are decisions made by Management, based on an analysis of relevant information available at the time the decision is made. Judgments relate to application of accounting policies, and decisions related to the measurement, recognition and disclosure of financial amounts.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included both below and in the statement notes relating to items subject to significant estimate uncertainty.

Property, Plant and Equipment, and Investment Properties
Property, plant and equipment and investment properties are depreciated over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets as outlined in note 3(c). The appropriateness of useful lives of these assets is assessed annually. Changes to the useful life estimates would affect future depreciation expenses and the future carrying value of assets.

In order to establish useful lives for these assets, management uses its judgment to determine the componentization of property, plant and equipment and investments properties. A component is accounted for separately if it is significant in comparison to the value of the entire asset and if its useful life differs from the other components.

Long-lived Assets Valuation
BWBC performs impairment testing on its long-lived assets annually for intangible assets, and when circumstances indicate that there may be impairment, for other long-lived assets. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in determining the grouping of assets to identify their Cash Generating Units ("CGU") for the purpose of impairment testing.

BWBC assesses impairment by comparing the recoverable amount of a long-lived asset, CGU or CGU group to its carrying value. The recoverable amount is defined as the higher of (i) value in use, or (ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgment and estimation.

BLUE WATER BRIDGE CANADA
SELECTED NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED February 28, 2014

The values associated with intangible assets involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These estimates and assumptions could affect BWBC's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite life intangible assets recognized in future periods.

Employee Benefit Plans
The cost of other post-employment benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, mortality rates and expected health care costs. Discount rates used in actuarial calculations are based on long-term interest rates and can have a material effect on the amount of plan liabilities. Management employs external experts to advise BWBC when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized employee benefit liabilities and comprehensive income (loss) will be affected.

Leases
BWBC is party to many leasing arrangements, which requires management to determine whether the lease is a finance or operating lease by assessing if substantially all of the risks and rewards of ownership have passed to the lessee. A lease is classified as a finance lease whenever the terms of the lease transfer substantially all of the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

In management's judgment, all BWBC leases are considered to be operating leases. Rent payable under operating leases is recognized in income on a straight-line basis over the term of the respective lease.

3. SIGNIFICANT ACCOUNTING POLICIES

a) *Financial Instruments*

Financial assets or liabilities are measured at fair value on initial recognition, including transaction costs. The measurement of financial instruments in subsequent periods depends on their classification. The classification of BWBC's financial instruments is presented in the following table:

Category	*Financial Instruments*
Financial assets held-to-maturity	Investments
	Restricted funds
Loans and receivables	Trade and other receivables
Financial liabilities	Trade and other payables
	Holdbacks payable
	Bank loan payable
	Bonds payable

BLUE WATER BRIDGE CANADA
SELECTED NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED February 28, 2014

Financial assets held-to-maturity are measured at amortized cost. Interest is recognized using the effective interest rate method and recognized in the Statement of Comprehensive Income (Loss). Investments are classified as non-current assets, except for those with maturities that are less than 12 months from the end of the reporting period, which are classified as current assets. Restricted funds are classified as non-current in accordance with the timing of their intended use.

Assets classified as loans and receivables are recorded at amortized cost using the effective interest rate method.

Other financial liabilities are measured at amortized cost using the effective interest method.

b) ***Impairment of Assets***

Financial Assets
Assessment is made at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For financial assets measured at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the Statement of Comprehensive Income (Loss).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Statement of Comprehensive Income (Loss).

Non-Financial Assets
Assets that are subject to depreciation are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, the entity shall estimate the recoverable amount of the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

BLUE WATER BRIDGE CANADA
SELECTED NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED February 28, 2014

c) ***Property, Plant, Equipment, Intangible Assets and Investment Properties***

Property, plant and equipment, intangible assets, and investment properties are presented on the interim condensed Statement of Financial Position as cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition or the construction of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to BWBC and the cost of the item can be measured reliably. Repairs and maintenance are charged to the interim condensed Statement of Comprehensive Income (Loss) during the financial period in which they occurred.

Land is not depreciated. Depreciation on other assets is calculated using the methods and estimated useful lives below. Depreciation rates based on the estimated useful life of an asset are as follows:

Bridges and Truck Ramp	Straight line 50-75 years
Buildings	Straight line 5-70 years 5%-20% diminishing balance basis
Equipment	Straight line 5-10 years 10%-20% diminishing balance basis
Property improvements	10%-20% diminishing balance basis
Vehicles and construction equipment	20% diminishing balance basis
Intangible assets	Straight line 5 years
Investment properties	5-70 years straight-line 5%-20% diminishing balance basis

Residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period, or more often if events or circumstances dictate.

i) ***Property, Plant, and Equipment***

Buildings
Ten buildings and all of the old booths that were not built in BWBC's latest phase of the master capital plan have been identified for demolition in accordance with the master capital plan. Depreciation has been accelerated to depreciate the remaining net book value over the period of time through to the planned date of demolition.

BLUE WATER BRIDGE CANADA
SELECTED NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED February 28, 2014

Residential Buildings
Included in buildings are residential properties held by BWBC for future land development. No depreciation on residential buildings is recorded. The total acquisition cost of the residential buildings will be transferred to the land account when these buildings are demolished.

Construction in Process
Construction in process is not depreciated. When projects are significantly completed and put in use, the costs are transferred to the appropriate asset account and depreciation is initiated.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. BWBC's definition of a qualifying asset is any asset that costs over $1 million and takes over a year to be substantially ready for intended use or sale.

When general borrowings are incurred for the development of a qualifying asset, the capitalization rate applied to the resulting figure is the weighted average of the borrowing rates incurred.

ii) Intangible Assets

The costs of purchases of computer software that meet the definition of intangible assets and that are separable from an item of related hardware are capitalized separately.

iii) Investment Properties

Investment properties are properties held to earn rental income. Investment properties are leased to tenants such as travel and tourism, commercial customs brokers, a private coffee shop, and a duty free shop.

d) ***Revenue Recognition***

Tolls and services revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Facility rentals revenues are recognized and recorded in the periods in which they are earned. These revenues include lease payments received from tenants such as commercial custom brokers, private coffee shops, and a duty free store.

Currency exchange department revenues are recorded and recognized at the time the currency exchange transaction is completed. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Interest is recognized using the effective interest rate method and recorded in the period in which it is earned. The primary component of revenue in this category is bond interest.

BLUE WATER BRIDGE CANADA

SELECTED NOTES TO THE INTERIM UNAUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE 2nd QUARTER ENDED February 28, 2014

Deferred revenues represent tolls paid in advance by passenger vehicle users and commercial trucking companies. Revenue is recognized at the time the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

e) ***Foreign Currency Translation***

Foreign currency accounts are translated to Canadian dollars as follows:
At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the Statement of Comprehensive Income (Loss) in the current period.

f) ***Employee Benefits***

BWBC provides post-employment benefits including health care, dental care, employee assistance, and life insurance to eligible employees and their dependents upon meeting certain requirements. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for non-current high quality bonds. The measurement date is August 31.

The net cost consists of the actuarially determined benefits for the current year's service and imputed interest on projected obligations. Actuarial gains or losses are recognized in the period in which they are incurred. These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

Past service costs associated with post-employment benefits are recognized as an expense in the period incurred. BWBC also provides defined contribution pension benefits to its employees. BWBC's contributions reflect the full benefit cost of the employer and they are charged to operations during the year in which the services are rendered.

g) ***Leases***

As lessor, when assets are leased out under an operating lease, the asset is included in the statement of financial position within property, plant and equipment and investment properties.

h) ***Federal, Provincial and Municipal Government Assistance***

Federal, provincial and municipal government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

i) ***Contingencies and Provisions***

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is probable, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements.

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j) Accounting Pronouncements

New Standards, Amendments, and Interpretations effective January 1, 2013

BWBC applied, for the first time, certain standards and amendments, some of which required restatement of previous financial statements. This included IAS 19 (2011) *Employee Benefits*, IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. As required by IAS 34 *Interim Financial Reporting and IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*, the nature and the effect of these changes are disclosed below.

Amendments to IAS 19 Employee Benefits
In June 2011, the IASB amended IAS 19 effective for fiscal years beginning on or after January 1, 2013. Amongst other changes, the amendments require entities to recognize actuarial gains or losses and past service costs directly in other comprehensive income and profit and loss, respectively, in the period in which they are incurred. During the quarter, BWBC adopted the revised IAS 19 *Employee Benefits* on a retrospective basis. The impact of adopting IAS 19 was that retained earnings as at September 1, 2011 increased by $1,035,751 as a result of including unamortized net actuarial losses. An additional amount of $295,420, relating to unamortized past service costs, decreased retained earnings as a result of unamortized past service costs.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the interim financial statements of BWBC. The nature and the impact of each new standard is described below:

IFRS 13 Fair Value Measurement
During the quarter BWBC adopted IFRS 13 *Fair Value Measurement* on a prospective basis. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. Although BWBC is in the process of determining the exact implications to the note disclosures, the impact should be isolated to the note disclosures for fair market value of investment property.

Amendment to IAS 1 Presentation of Items of Other Comprehensive Income
During the quarter BWBC adopted the amendment to IAS 1 *Presentation of Financial Statements* on a retrospective basis. The amendment requires that BWBC present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The amendment affected the presentation of the statement of other comprehensive income and had no impact on the financial results of BWBC.

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Standards, Amendments, and Interpretations not yet in effect

IFRS 9 Financial Instruments
In October 2010, the IASB published amendments to IFRS 9 *Financial Instruments* (IFRS 9 (2010)) which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 (2010) supersedes IFRS 9 (2009). The implementation date has yet to be determined by the IASB.

4. IMPACT OF NEW ACCOUNTING STANDARDS DURING THE PERIOD

Beginning January 1, 2013, BWBC adopted revised IAS 19 *Employee Benefits* on a retrospective basis with restatement. Under revised IAS 19, BWBC is required recognize actuarial gains or losses and past service costs directly in other comprehensive income and profit and loss, respectively, in the period in which they are incurred. The impact of the adoption of revised IAS 19 is a net increase in earnings of $740 thousand for the quarter ended November 30, 2012. BWBC has restated its interim unaudited condensed financial statements as noted in the table which appears on the next page.

Statement of Financial Position

		Amended IAS 19 effects		
As at August 31, 2013	As previously reported	Past service Costs	Actuarial Gains	Restated
	$	$	$	$
Liabilities				
Employee benefits	6,255,022	295,420	(1,035,751)	5,514,691
Equity				
Retained earnings	138,336,254	(295,420)	1,035,751	139,076,585